BNP PARIBAS REAL ESTATE

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Appeal under Section 78 of the Town and Country Planning Act 1990

Bangor Wharf, Georgiana Street, London, NW1 0QS

Proof of evidence of Anthony Lee PhD MRTPI MRICS

PINS Ref: APP/X5210/W/16/3165200

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October 2017

Contents

Appendices

1 Personal introduction

1.1 I, Anthony David Lee BSc (Hons) MSc (Econ) MA (TP) PhD MRTPI MRICS confirm that:

1.2 I am a Senior Director and head of the UK Residential Division of BNP Paribas Real Estate, where I have been employed since 2000. Prior to this I worked as a Management Consultant at Newbury King Consultants, advising local authorities on stock transfer and the competitive tender of services, and was previously a Research Officer in the Housing Department at the London School of Economics and Political Science. In January 2003, I was awarded the degree of Doctor of Philosophy in Housing Policy by the University of London (London School of Economics). I am a professional member of the Royal Town Planning Institute and a professional member of the Royal Institution of Chartered Surveyors.

1.3 BNP Paribas Real Estate is a leading firm of chartered surveyors and international property consultants, with offices throughout the United Kingdom and associated offices in Europe, the USA and the Far East. The firm provides a comprehensive range of property and planning services. The firm is accredited under ISO9002 for the provision of quality assured services.

1.4 The Residential Division of BNP Paribas Real Estate advises landowners, developers, local authorities and registered providers ('RPs') on development viability and the ability of sites to meet planning obligations requirements, including affordable housing provision.

1.5 I have advised London boroughs, the Greater London Authority, landowners developers on the viability of numerous major sites in London and elsewhere, including major developments at Battersea Power Station, Embassy Gardens, New Covent Garden Market, New Wembley, Bishopsgate Goods Yard, Wood Wharf, Shell Centre, Woodberry Down, Chelsea Barracks, Aylesbury Estate and Ruskin Square. I appeared as an Expert Witness on viability at City & Country's appeal against Tendring District Council in relation to development at St Osyth's Priory. I was subsequently appointed as Single Joint Expert by City & Country, Historic England and Tendring District Council at the second inquiry, at which planning permission was granted.

1.6 I have undertaken borough-wide viability assessments for the purposes of testing the viability of planning policies and Community Infrastructure Levy rates for over sixty local authorities. I have attended CIL examinations in public for those local authority clients. All examiners who have reported so far have found the charging schedules to be sound.

1.7 In March 2009, I was appointed as a member of the RICS 'Experts in Planning Service' panel to support the Planning Inspectorate on major casework and local development plan work submitted for independent examination. I assisted the inspectors examining the economic viability of housing policies within the Core Strategies of Stockton Borough Council; Hinckley and Bosworth Council; and East North Hants District Council.

1.8 In 2007 and again in 2012 I was appointed by the Greater London Authority to review its 'Development Control Toolkit Model' (commonly referred to as the 'Three Dragons' model). These reviews included testing the validity of the Three Dragons' approach to appraising the value of residential and mixed use developments; reviewing the variables used in the model; and advising on areas that required amendment in the re-worked toolkit.

1.9 I am an advisor to the Local Government Association Planning Advisory Service and was a member of the 'Local Housing Delivery Group' panel which drafted 'Viability Testing Local Plans: Advice to Practitioners' (June 2012) under the Chairmanship of Sir John Harman. In 2016, the Greater London Authority appointed me to peer review its draft Supplementary Planning Guidance 'Homes for Londoners: Affordable Housing and Viability'. I am a member of the 'Developer Contributions Technical Expert Panel' established by the Department for Communities and Local Government to advise on the use of viability assessments in local plans and development management.

1.10 As outlined above, I have extensive experience of advising landowners, developers, local authorities and RPs on economically and socially sustainable residential developments.

1.11 I confirm that I am not instructed under any conditional or success-based fee arrangement.

1.12 I confirm that I have prepared my evidence in accordance with the Royal Institution of Chartered Surveyor's Practice Statement titled "*Surveyors Acting as Expert Witnesses*" (Fourth edition, April 2014).

2 Introduction and scope of evidence

2.1 The Appeal Site is situated within the London Borough of Camden. It extends to approximately 0.18 hectares and is located in a prominent position fronting Georgiana Street and the Grand Union Canal.

2.2 The Site is located within the St Pancras and Somers Town Ward which is in the centre of the borough. The Site accommodates a 2 storey 'L' shaped office building located along its western boundary and part of its southern boundary. The remainder of the Site accommodates other low rise buildings which were historically used for the storage of goods. There is an area of hard standing in the centre of the Site extending to circa 1,046 square metres which is used for parking and circulation. This hard standing also connects to the main access to the site from Georgiana Street.

2.3 The site is triangular with its long, north-eastern side boundary forming a boundary with the Regents Canal. The southern boundary runs along Georgiana Street and the western side backs onto the rear boundary walls of houses/workshops on Royal College Street. The Appeal Site was previously occupied by EDF Energy as a depot for the storage of materials and office space. EDF vacated the premises in October 2015. However, it is understood they vacated the premises during October 2015 as the site no longer met their operational requirements.

2.4 To the south-eastern part of the site is Fleet Trunk Sewer, which is located next to Gray's Inn Bridge.

2.5 Table 2.5.1 provides a summary of the existing floorspace.

Table 2.5.1: Existing floorspace

Building	Square feet GIA	Square metres GIA
Main 2 storey building	8,783	816
Single storey building	2,110	196
Totals	**10,893**	**1,012**

2.6 In February 2016, the Appellant submitted a planning application (reference 2016/1117/P) for:

"Demolition of all buildings on-site and new buildings of 1-6 storeys in height to include 46 residential (C3) units (18 x 1 bed, 19 x 2 bed and 9 x 3 bed) of which 30 market units and 16 affordable, new office (B1a) floorspace (604m² GIA) and associated works to highways and landscaping".

2.7 Table 2.7.1 summarises the unit mix and floor areas for the proposed development.

Table 2.7.1: Floor areas for the proposed development

Unit type	No of residential units	Average area sqm	Average area sq ft	Total area sq m	Total area sq ft
1 bed 2 person	18	54.44	565	944	10,161
2 bed 3 person	3	62	667	186	2,002
2 bed 4 person	16	72.25	778	1,156	12,443
3 bed 5 person	9	87.55	942	788	8,482
Totals	**46**			**3,074**	**33,089**

2.8 In June 2016, the Council refused the planning application on 18 grounds, the fifth of which was that "*The proposed development, by reason of the quantum, tenure and quality of the affordable housing proposed, would fail to maximise the contribution of the site to the supply of affordable housing in the borough, contrary to policies H4 (Maximising the supply of affordable housing) and DM1 (Delivery and monitoring) of the Camden Local Plan 2017, policies 3.8, 3.10, 3.11 and 3.12 of the London Plan 2016 and paragraphs 47, 50 and 173 of the NPPF 2012".*

2.9 My proof of evidence deals with the viability aspects of the fifth reason for refusal, namely the outcome of the affordable housing viability assessment.

2.10 The Appellant has sought to engage with the Council and their Advisor, BPS Surveyors thorough a through a series of viability appraisal submissions[1].

2.11 As a result of these discussions with BPS, many appraisal inputs for the appraisal of the Appeal Scheme are now agreed between BNPPRE and BPS. The agreed inputs are identified in Table 2.11.1.

[1] 25 February 2016 Initial Viability Report Appeal Scheme
23 March 2016 Addendum Viability Report Appeal Scheme
18 May 2016 Addendum Viability Report Appeal Scheme
5 May 2017 New Scheme Viability Report
9 June 2017 New Scheme Addendum Viability Report

Table 2.11.1: Agreed Viability Assumptions

Appraisal Input	Agreed Assumption
Private Sales Value	£1,046.64 per square foot
Build Costs	Total of £11,729,480
Benchmark Land Value – Approach	Existing Use Value
Landowner premium	20% of Existing Use Value
Annual Ground Rents on Private Sale units	1 bed £300 per unit 2 bed £350 per unit 3 bed £400 per unit
Ground Rent Capitalisation yield	4.75%
Office Rent	£40 per sq ft
Office Capitalisation Rate	5.5%
Office Void and rent free period	12 months
Developer’s profit - private residential	20% on GDV
Developer’s profit - office	17.5% on GDV
Developer’s profit - affordable housing	6% on GDV
Mayoral CIL	£144,650
LB Camden CIL	£568,900
Development programme	6 month lead in 26 month construction 4 month sales with 40% pre-sold
Finance Rate	7%
Shared Ownership Value Calculations	25% initial equity sold

2.12 My proof of evidence considers appraisal inputs and approaches which are disputed between the Appellant and BPS.

2.13 The key issues of dispute between the parties are as follows:

- The Existing Use Value for the viability assessment; and
- Affordable Housing Revenue.

2.14 Given the progress between the discussions between BNPPRE and BPS, with regards to the agreed assumptions to apply to the Appeal Scheme appraisal, the Residual Land Value (‘RLV’) of the Appeal Scheme is now higher than the Benchmark Land Value, which means that the viable quantum of affordable housing has increased from 33% to 48% with a tenure mix of 44% social rent and 56%

shared ownership.

The scope of my evidence

2.15 My evidence addresses the points of dispute between the parties, as set out in paragraph 2.14 and outlines the outturn viability assessment.

2.16 My assessment draws upon the advice of Savills and the Appellant.

2.17 Savills advised the Appellant on the existing use value of the buildings on the Site for the purposes of establishing a Benchmark Land Value. Mr Shakespeare sets out his opinion of value and the variables that are not agreed with Mr Gellatly of BPS.

2.18 Mr Millership of the Appellant explains how registered providers calculate the value of new affordable housing when seeking to purchase stock delivered through Section 106 obligations. In this case, the Appellant will be building and retaining the affordable units and he has provided the value that he attributes to these units.

3 Approach for determining maximum quantum of affordable housing

3.1 Mr Pittock will be dealing with planning policy in relation to the Appeal Scheme.

3.2 My firm's February 2016 Financial Viability Assessment adopts a standard 'residual valuation' approach to determining the value of the application schemes. This is consistent with the approaches highlighted by the RICS Guidance '*Viability in Planning*' (2012), Local Housing Delivery Group guidance '*Viability Testing Local Plans: Advice for Planning Practitioners*' (2012) and the Mayor of London's *'Affordable Housing and Viability SPG'* (2017). This method of appraising the scheme is agreed between the Appellant and the Council.

3.3 In viability terms, there is a tension between maximising the overall quantum of affordable housing and maximising the provision of the rented element of the affordable housing provision. This is because rented housing has a lower value than intermediate forms of affordable housing.

3.4 The key tension is that the Council disputes shared ownership as a credible form of affordable housing because – in its view – the incomes required exceed local incomes of those identified as being in housing need. However, the Appellant can only maximise the overall delivery of affordable housing by providing a significant proportion of this type of affordable housing in the Appeal Scheme.

3.5 Mr Pittock's proof of evidence sets out the flexibility within the relevant planning policies which allow for deviations from the Council's target mix of 60% rent and 40% intermediate housing tenures. Mr Millership's proof of evidence demonstrates how the proposed approach and valuation of the intermediate units ensures that the units are affordable to households deemed by the Mayor of London to be in housing need.

3.6 As noted by Mr Pittock, the overall affordable housing provision is just 2% below the Council's 50% strategic affordable housing target. The Appeal Scheme is able to achieve this percentage of affordable housing through provision of a tenure mix weighted towards intermediate housing (56%) with the remainder being social rent (44%). Nevertheless, the Council's objection to shared ownership housing being unaffordable housing is incorrect, as demonstrated by Mr Millership's proof of evidence.

4 Viability appraisals submitted in support of the application

4.1 BNP Paribas Real Estate ("BNPPRE") prepared a viability report dated 25 February 2016 to support the planning application. The viability report tested the Applicant's proposed scheme with provision of 29% affordable housing and set out the assumptions regarding the proposed scheme values and costs. The proposed scheme with this level of affordable housing generated a Residual Land Value ("RLV") of £7,097,310. In order to assess whether the proposed scheme is viable, the RLV was compared to an appropriate viability benchmark. In this case, we were provided with an Alternative Use Value scheme ("AUV") which was based on an alternative proposal for the site for the provision of 10 houses with a policy compliant level of affordable housing (10%). The AUV scheme generated a value of £7,796,208

4.2 Table 4.2.1 sets out the proposed scheme viability position based on the AUV scheme of 10 houses. However, the Council subsequently advised that that this AUV scheme could not be considered to reasonably be granted planning consent; therefore another AUV scheme was prepared. BNPPRE's Viability Assessment Addendum report dated 23 March 2016 was subsequently prepared, based on a further AUV scheme, based on a similar designed scheme to the proposed scheme, but with a higher proportion of commercial floorspace, and a policy compliant level of affordable housing. The revised AUV scheme generated a lower viability benchmark value of £6,994,516. The revised results are set out in Table 4.2.2.

Table 4.2.1 - Viability results – 25 February 2016 Initial Report

Benchmark Land Value	Affordable Assumptions	RLV	Viability Benchmark	Surplus/Deficit generated against benchmark
Based on original AUV scheme of 10 houses	29% AH (13 AH units – 9 rented and 4 shared ownership)	£7,097,310	£7,796,208	-£698,898

Table 4.2.2 - Viability results – 23 March Addendum Report

Benchmark Land Value	Affordable Assumptions	RLV	Viability Benchmark	Surplus/Deficit generated against benchmark
Based on revised AUV scheme	29% AH 13 AH units	£7,097,310	£6,994,516	£102,794
Based on revised AUV scheme	Additional AH unit (14 units) 30% AH in terms of units	£6,947,369	£6,994,516	-£47,147

4.3 Compared to the lower viability benchmark, the proposed scheme with 29% affordable housing generated a surplus of £102,794. However, further analysis indicated that if an additional affordable housing unit were to be provided, the result would be a deficit against the lower benchmark, and therefore this would be unviable to provide additional affordable housing.

4.4 Subsequent to the submission of the 23 March viability report addendum, the Council advised that they would not consider any AUV scheme appropriate for use as a viability benchmark and requested that a further viability report was submitted based on an Existing Use Value as viability benchmark. Therefore the Applicant instructed Savills to undertake a formal RICS "Red Book" Valuation of the site in its existing use. BNPPRE then prepared a further viability report addendum dated 18 May 2016. The reported EUV of the site was £5,150,000. BNPPRE added a premium of 20% to the EUV to generate a revised lower viability benchmark of £6,180,000. The revised results are set out at Table 4.4.1.

Table 4.4.1 - Viability results – 18 May 2016 Addendum Report

Benchmark Land Value	Affordable Assumptions	RLV	Viability Benchmark	Surplus/Deficit generated against benchmark
Based on EUV + Premium	29% AH	£7,097,310	£6,180,000	£917,310
Based on EUV + Premium	33% AH (16 units - 9 rented and 7 shared ownership – 35% in terms of units)	£6,197,712	£6,180,000	£18,712

4.5 When compared to the lower viability benchmark, the proposed scheme with 29% affordable housing generated a surplus of £917,310. Our further analysis indicated that against the lower EUV + premium benchmark, the proposed scheme could support an additional 3 shared ownership units, which brought the total AH provision to 33% (35% in terms of units).

4.6 The BNPPRE report addendum dated 18 May 2016 concluded the following viability results:

Table 4.6.1 Viability Results 18 May 2016

Affordable housing	Residual Land Value (RLV)	Viability Benchmark	Surplus / deficit generated against benchmark
33% affordable housing	£6,198,712	£6,180,000 (EUV + 20% premium)	£18,712

4.7 The above viability benchmark was based on Savills EUV of £5,150,000 with a 20% premium, generating a viability benchmark of £6,180,000. During the negotiation of a resubmitted planning application in May 2017 for an alternative scheme to the appeal scheme, BPS raised concerns that the floor areas of the existing building were higher in the report than the areas submitted on the planning application form. It was subsequently noted by the Appellant and BNPPRE that Savills had been provided by a former employee of the Appellant with estimated floor areas, which were indeed incorrect. Accordingly Savills recalibrated their valuation to reflect the revised areas and consequently the EUV was adjusted downwards to £4,000,000. With the retention of the agreed premium of 20%, the revised viability benchmark was £4,800,000.

4.8 Accordingly against the corrected viability benchmark, the initial viability appraisal results set out in Table 4.6.1 above would be amended to generate a surplus of £1,398,712, as shown in Table 4.8.1 below.

Table 4.8.1: Viability Results with revised viability benchmark

Affordable housing	Residual Land Value (RLV)	Viability Benchmark	Surplus / deficit generated against benchmark
33% affordable housing	£6,198,712	£4,800,000 (EUV + 20% premium)	£1,398,712

5 Revisions to appraisal following agreement of matters set out in statement of common ground

5.1 The Statement of Common Ground sets out agreed appraisal inputs following discussions with BPS. As a result of these discussions, almost all of the appraisal inputs have been agreed, as set out in Table 2.11.1.

5.2 The two remaining inputs that are disputed are the affordable housing revenues and benchmark land value. Mr Millership's proof of evidence sets out the correct approach to calculating the affordable housing revenues and Mr Shakespeare's proof provides his expert opinion on the matters relating to benchmark land value.

5.3 When the appraisals are adjusted to reflect the agreed appraisal assumptions (as set out in Table 2.11.1), the results are set out in Table 5.3.1.

Table 5.3.1: Updated Viability Results with correct benchmark and agreed assumptions

Affordable Assumptions	Residual Land Value (RLV)	Viability Benchmark	Surplus / deficit generated against benchmark
33% affordable housing	£7,113,458	£4,500,000 (EUV + premium basis)	£2,613,548

5.4 With regards to the two disputed appraisal inputs, namely the benchmark land value and the value to be attributed to the affordable housing units, our updated appraisals adopt Savills' benchmark land value (now revised downwards to £4.5 million) and the Appellant's affordable housing values £114.82 per square foot for social rented units and £328 per square foot for shared ownership.

5.5 The Appellant has used the surplus of £2,613,548 identified above to convert the 7 affordable rent units in Block A to social rent units (the latter attracting a lower rent than the former and therefore generating a significantly lower capital value). The remaining surplus has then been used to convert 6 private residential units in blocks B and C into intermediate (shared ownership) units. This revised mix equates to 48% affordable housing, with 44% rented and 56% intermediate, as summarised in Table 5.5.1.

Table 5.5.1: Appeal Scheme tenure mix

Tenure	Unit Type	Number	Average Area Sq M	Average Area Sq Ft	Total Area Sq M	Total Area Sq Ft
Social Rented	1 bed 2 person	1	59	653	59	653
Social Rented	2 bed 3 person	2	62	667	124	1,335
Social Rented	2 bed 4 person	4	71	764	284	3,057
Social Rented	3 bed 5 person	2	90	969	180	1,938
Sub Total – Social Rented		*9*			*647*	*6,964*
Shared Ownership	1 bed 2 person	7	51.29	552	359	3,864
Shared Ownership	2 bed 4 person	3	70	753	210	2,260
Shared Ownership	3 bed 5 person	3	86	926	258	2,777
Sub Total – Shared Ownership		*13*			*827*	*8,902*
Sub Total Affordable		***22***			***1,474***	***15,867***
Private	1 bed 2 person	10	52.6	566	526	5,662
Private	2 bed 3 person	1	62	667	62	667
Private	2 bed 4 person	9	73.55	792	662	7,126
Private	3 bed 5 person	4	87.5	942	350	3,767
Sub Total Private		*24*			*1,600*	*17,223*
Total		**46**			**3,074**	**33,089**

5.6 The results from our revised appraisal based on 48% affordable housing are summarised in Table 5.6.1

Table 5.6.1: Revised appraisal with 48% affordable housing (56% rented and 44% shared ownership)

Affordable Assumptions	Residual Land Value (RLV)	Viability Benchmark	Surplus / deficit generated against benchmark
48% affordable housing	£4,603,401	£4,500,000 (EUV + premium basis)	£103,401

6 Conclusions

6.1 The results of my updated residual appraisals confirm that the scheme can viably provide 48% affordable housing with a tenure mix of 44% rent and 56% shared ownership.

Appendix 1 - Revised Residual Appraisal (48% affordable housing, 44% affordable rent and 56% shared ownership)

BNP Paribas Real Estate

Development Appraisal

Bangor Wharf, Georgiana Street, NW1 0QS

46 unit scheme 22AH

Report Date: 23 October 2017

Bangor Wharf, Georgiana Street, NW1 0QS
46 unit scheme 22AH

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Private	1	17,223	1,063.70	18,320,149	18,320,149
Intermediate	1	8,902	328.02	2,920,000	2,920,000
Affordable Rent	1	5,027	114.82	577,200	577,200
Social Rent	1	1,938	114.82	222,521	222,521
Totals	**4**	**33,090**			**22,039,870**

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Commercial	1	5,202	40.00	208,064	208,064	208,064
1 bed ground rent	10			300	3,000	3,000
2 bed ground rent	10			350	3,500	3,500
3 bed ground rent	4			400	1,600	1,600
Totals	**25**	**5,202**			**216,164**	**216,164**

Investment Valuation					
Commercial					
Market Rent	208,064	YP @	5.5000%	18.1818	
(1yr Rent Free)		PV 1yr @	5.5000%	0.9479	3,585,765
1 bed ground rent					
Current Rent	3,000	YP @	4.7500%	21.0526	63,158
2 bed ground rent					
Current Rent	3,500	YP @	4.7500%	21.0526	73,684
3 bed ground rent					
Current Rent	1,600	YP @	4.7500%	21.0526	33,684
					3,756,291

GROSS DEVELOPMENT VALUE			**25,796,161**
Purchaser's Costs	6.80%	(255,428)	
			(255,428)
NET DEVELOPMENT VALUE			**25,540,734**
Income from Tenants			
1 bed ground rent		750	
2 bed ground rent		875	
3 bed ground rent		400	
			2,025
NET REALISATION			**25,542,759**

OUTLAY

ACQUISITION COSTS			
Residualised Price		4,603,401	
Stamp Duty	5.00%	230,170	
Agent Fee	1.00%	46,034	
Legal Fee	0.50%	23,017	
			4,902,622

CONSTRUCTION COSTS

Construction	**Units**	**Unit Amount**	**Cost**	
Construction Costs	1 un	11,729,480	11,729,480	**11,729,480**
CIL total			525,300	
S.106			164,588	
				689,888

Bangor Wharf, Georgiana Street, NW1 0QS
46 unit scheme 22AH

PROFESSIONAL FEES			
Professional Fees	10.00%	1,172,948	
			1,172,948
MARKETING & LETTING			
Marketing	1.00%	183,201	
Letting Agent Fee	10.00%	20,806	
Letting Legal Fee	5.00%	10,403	
			214,411
DISPOSAL FEES			
Sales Agent Fee	1.75%	386,338	
Sales Legal Fee	0.50%	110,382	
			496,720
MISCELLANEOUS FEES			
Private Profit	20.00%	3,698,135	
Affordable Profit	6.00%	223,183	
Commercial Profit	17.50%	627,509	
			4,548,827
FINANCE			
Debit Rate 7.000% Credit Rate 0.000% (Nominal)			
Land		962,033	
Construction		727,098	
Other		98,732	
Total Finance Cost			1,787,862
TOTAL COSTS			**25,542,759**
PROFIT			
			0

Performance Measures	
Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.85%
Equivalent Yield% (Nominal)	5.47%
Equivalent Yield% (True)	5.66%
IRR	6.74%
Rent Cover	0 yrs 0 mths
Profit Erosion (finance rate 7.000%)	0 yrs 0 mths